



Current Activities Overview

March 2005

Where Grid West Is Now and How We Got Here

Grid West officially became a membership organization on December 15, 2004 (the date on which new articles of incorporation were filed with the Washington Secretary of State's office). Grid West is currently welcoming applications for membership from all eligible entities that are interested in joining.

The launch of Grid West was the culmination of months of intensive work by a comprehensive cross-section of the region's transmission stakeholders, including transmission providers, power producers, end users, public power, environmental and other public interest organizations, and state, provincial, and tribal officials from across Idaho, Oregon, Washington, Montana, Utah, Wyoming, Nevada, British Columbia, and Alberta.

Working under the auspices of the Grid West Regional Representatives Group ("RRG"), members of the Bylaws Work Group prepared developmental bylaws for Grid West (which are currently in effect) and operational bylaws for Grid West (which would apply if Grid West reaches the point of offering commercial services). The Grid West bylaws provide for an organization that is flexible and focused on regional needs. Grid West's elected board members will be independent of market participants but accountable to the region. The Grid West interim board (initially) and subsequently the developmental board (once elected) will be charged with building on regional efforts to date.

During the past year, the Grid West Transmission Service Liaison Group has been developing the foundation of Grid West's approach to transmission services, building on previous RRG work to identify the region's transmission problems and opportunities. Grid West would provide new avenues to address today's transmission problems while capitalizing on ways to increase operational efficiency over time.

In a consensus document, the RRG identified several problems with regional transmission services today, including:

- ◆ rules and practices that prevent full utilization of transmission infrastructure;
- ◆ impediments to efficient, region-wide transactions;
- ◆ congestion management by curtailment;
- ◆ absence of organized market structures that induce efficient use of the system;
- ◆ inability to effectively plan and construct needed transmission infrastructure in the region; and
- ◆ lack of an independent market monitor.

The Grid West proposal has the potential to improve transmission service and infrastructure development by:

- ◆ improving system planning and expansion procedures to ensure timely replacement and expansion of aging transmission infrastructure;
- ◆ facilitating multi-party agreements for cost and benefit allocation; and
- ◆ more efficiently managing the operating conditions that affect system reliability.

If the Grid West organization reaches its operational stage, it will be authorized to act as a “backstop” for making sure that transmission infrastructure critical to reliable operations is built when it is needed.

What Lies Ahead

During 2005, further developmental work will continue. The major milestones that lie ahead in the process are Decision Points 2, 3, and 4 (Decision Point 1, which was adoption of the Grid West Developmental Bylaws, occurred in December 2004).

Decision Point 2 (expected to occur sometime in 2005) is a determination of whether to proceed with further development of Grid West as it would function during its operational stage. Based on an assessment of the components of the proposed operational stage and a preliminary risk/reward study, RRG members will provide their views on whether to continue moving forward by seating an independent, five-member developmental Board of Trustees that would have the authority to negotiate agreements with transmission owners for the use of their facilities and to develop proposed transmission tariffs for the operational stage. If there is an affirmative decision at Decision Point 2, the next major milestone is Decision Point 3.

Decision Point 3 refers to the Grid West developmental board’s determination of whether to offer agreements to the transmission owners that would enable Grid West to provide services using their facilities. If the developmental board does not make this offer within 12 months after taking office, the board must propose dissolution of Grid West to the members.

Decision Point 4 is a determination by Grid West’s members about whether Grid West should become operational and offer services. Members will have the opportunity to vote on this question if at least two investor-owned utility transmission owners and the Bonneville Power Administration propose to accept Grid West’s offer of a transmission agreement. If there is an affirmative decision at Decision Point 4, then Grid West will be able to begin offering commercial services.

To support meaningful assessments at upcoming decision points, work on the Grid West proposal continues. Development of proposed transmission service features will continue through the Grid West Transmission Service Liaison Group. There will also be ongoing work with respect to fixed-cost recovery, preliminary risk/reward evaluations, and development of Grid West transmission agreements and tariff provisions.

Guiding Principles for Future Development

The fundamental principles that will guide the Grid West developmental processes continue to be:

- ◆ accountability to the region;
- ◆ independent, merit-based decisions;
- ◆ preservation of existing transmission rights;
- ◆ compatibility with hydroelectric system operations;
- ◆ improvements to transmission service and reliability;
- ◆ facilitating integrated resource planning and providing transmission adequacy and appropriate congestion backstop;
- ◆ effective, regional market monitoring; and
- ◆ avoiding complex, costly structures.

A more detailed synthesis of these principles is included as a separate attachment to this overview.

Regional Scope of Grid West Facilities

This overview includes attachments that show the potential geographic scope of Grid West, as well as the ownership of transmission facilities in the Grid West “footprint.”

Additional Information

<http://www.gridwest.org>

Contacts:

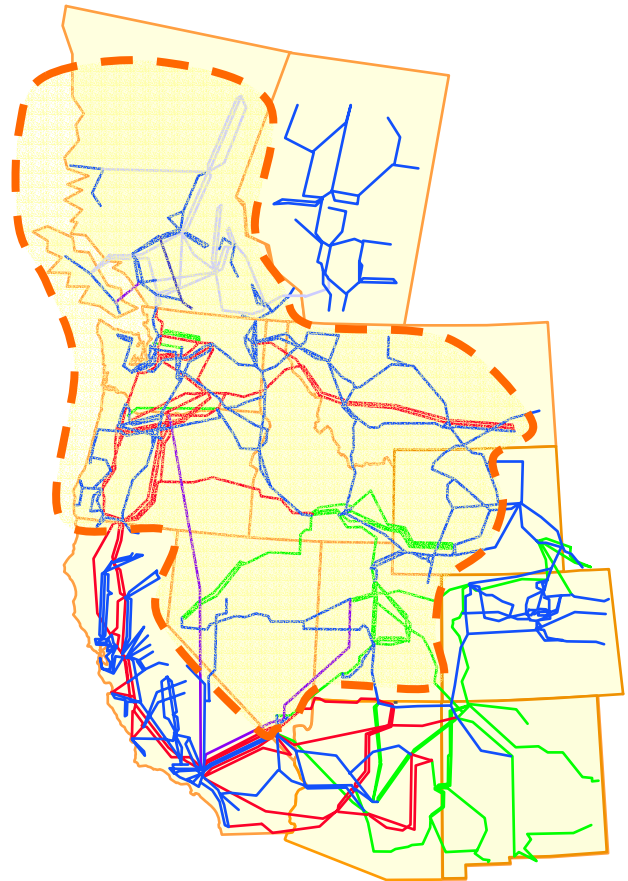
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Regional Scope of Grid West Facilities

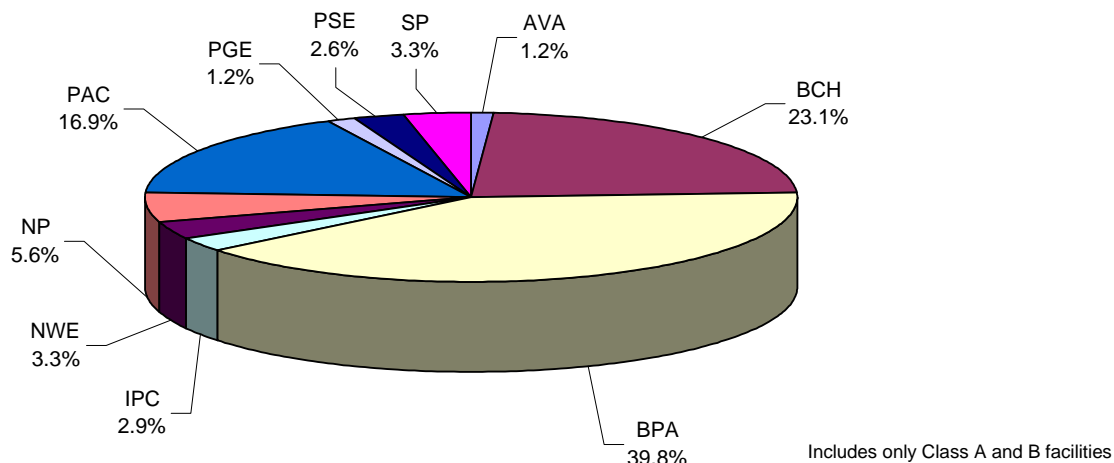
Utilities considering formation of Grid West own over 62,000 circuit miles of transmission lines that are operated at or above 46 kV, with a net plant investment value of almost \$7.5 billion. The Grid West “footprint” includes most transmission facilities shown in the region below that are owned by the following companies:

- Avista Corporation (AVA)
- Bonneville Power Administration (BPA)
- BC Hydro (BCH)
- Idaho Power Corporation (IPC)
- Nevada Power (NP)
- NorthWestern Energy (NWE)
- PacifiCorp (PAC)
- Portland General Electric (PGE)
- Puget Sound Energy (PSE)
- Sierra Pacific (SP)

In addition to including U.S. entities, Grid West has been designed to accommodate participation by Canadian transmission owners and operators. B.C. Hydro (and more recently B.C. Transmission Corporation) has supported Grid West development as a filing utility. There have also been discussions with representatives from Alberta concerning the potential for Alberta to participate.



Ownership of Regional Transmission Facilities (Net Plant Investment)



Principles of Grid West Development

Accountability to the Region

- Board selected by regional member representatives.
- Regional consultation obligations.
- Member votes on certain issues to hold the organization accountable for its decisions.
- Driven by regional interests and priorities rather than regulatory concepts.

Independent, Merit-Based Decisions

- Region-wide perspectives that are not unduly influenced by market participants.
- Independence facilitates exchange of information.
- Directors and staff cannot be employees of, or hold financial interests in, market participants or members of the nonprofit corporation.

Existing Transmission Rights Will Be Preserved

- Grid West RRG clearly supports the necessity of providing sufficient transmission rights to all utilities that are responsible for reliably serving load.
- There will be **no mandatory** auctioning of existing transmission rights.
- Tariff rights that exist today, will be preserved in accordance with existing contracts.
- Rights holders may **voluntarily** elect to release portions of their existing rights for resale.

Grid West Markets Are Designed To Be Compatible with the Hydro System

- Existing hydroelectric plant owners and operators will continue to own, operate, and control their hydroelectric assets.
- Resource owners and operators will be able to **voluntarily offer** energy and capacity products to the Grid West managed market.
- Grid West will provide dispatch instructions only to the extent market participants have offered to provide service from their resources.

Better Tools for Service and Reliability Coordination

- System-wide visibility of conditions on regional power system will reinforce Grid West's operating role, but existing control area and distribution system operators will continue to perform most of their current operational functions.
- Technologies for secure optimization of transmission system use, which cannot be implemented in today's fragmented structure, could be implemented by Grid West.

Grid West Would Direct Resources to Planning, Adequacy, and Congestion Relief

- Grid West, as an independent organization with system-wide information and advanced analytical tools, would facilitate integrated resource planning by regional utilities by creating the analytical framework that is absent today.
- Where transmission system capacity is inadequate, Grid West would provide a backstop to facilitate reliable service to load.
- Where the effects of chronic congestion create economic hardship, Grid West would provide a forum for those seeking relief.

Grid West Would Support and Provide Regional Market Monitoring

- The region needs an organization that can monitor the market and help prevent dysfunctional markets.
- Because power markets extend throughout the Western Interconnection, the organization has an important role and relationship with adjacent organizations in multiple states and provinces.

Avoid Complex, Costly Organizational Structures

- Complete market design and obtain regulatory approvals before investing in systems.
- Negotiate vendor contracts that include incentives and risk-sharing provisions.
- Implement systems that have flexibility and support multi-vendor solutions.
- Analyze budget impacts of all proposed system changes.
- Leverage functionality developed in other markets.
- Use vendors with experience—avoid paying for new vendor development.